

The Militarization of GAZPROM

Lieutenant Commander Cindy Hurst, U.S. Navy Reserve



IN JULY 2007, Russia's Duma passed a bill that would allow energy companies Gazprom (Russia's state-owned natural gas monopoly) and Transneft (which controls Russia's oil pipeline infrastructure) the right to create private, internal armies. The new bill raised concern internationally and within the Kremlin that such a move would give these companies too much power. In addition to establishing a private army, Gazprom is bolstering the security of its vast pipeline network with unmanned aerial vehicles.¹

A Weapon of Diplomacy

In the past, Russia was known as a military superpower, but today Russia's vast energy resources represent its might. Many observers view Gazprom as one of Russia's most important weapons. One report pointed out that "the Russian Prime Minister makes no secret of his determination to use the state gas monopoly as a weapon."² Recently, Russian journalists Valery Panyushkin and Mikhail Zygar referred to Gazprom in the title of a book they co-authored, *Gazprom—The New Russian Weapon*.

Some observers call Russian energy specifically a "weapon of diplomacy."³ In 2008, during a speech given to Gazprom's board of directors, Russian President Dmitry Medvedev pointed out the importance of the company by referring to Gazprom as "a force to be reckoned with" and "a major force in the world."⁴ With these types of statements and Gazprom's role, which many skeptics view as a "state-within-a-state," creating an internal, private army with future access to more advanced military technology should not come as a surprise.

Most of Russia's leaders openly admit that energy is Russia's most precious resource. Author Marshall I. Goldman writes, "As President Putin . . . noted in a three-hour meeting following our Gazprom visit, Gazprom and Rosneft are very real and each year are accumulating more and more wealth and international influence, which they are using to advance the interests of the Russian state."⁵ The question is, how far is Russia willing to allow these companies to grow?

Government control. The energy industry in Russia has gone through some notable transformations over the past three decades. In 1975, the

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PHOTO: Russian President Dmitry Medvedev with Gazprom Neft-Omsk Refinery's CEO Alexander Meling, 12 February 2010. (AFP Photo)

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Soviet Union became the world's second largest producer of petroleum products. Of the Soviet republics, Russia was the largest producer.

After the fall of the Soviet Union in the early 1990s, the Russian government moved to create more of a free-market economic system by privatizing previously state-owned businesses. In the energy sector, the Ministry of the Gas Industry was treated differently from the Ministry of Petroleum Industry. In the case of the Ministry of Petroleum Industry, the state completely privatized the controlled oil fields, refiners, and pipelines. Goldman notes that owing to "politics, greed, a flawed design, and corrupt implementation, a small number of investors ended up in control of most of the previously state-owned enterprises."⁵ Some of these so-called oligarchs were former government officials with little to no experience in the energy industry. The system was poorly monitored, and companies suffered great waste. While the oligarchs became billionaires, their mismanagement and tax evasion caused the government to lose an important source of revenue.

In the Ministry of Gas Industry, on the other hand, senior officials managed to retain the properties

within the confines of the ministry. In 1989, the Ministry of the Gas Industry transformed itself into a new corporation called Gazprom. The state eventually privatized a portion of Gazprom, but it remained the primary shareholder, giving it control of the organization.

Putin clearly had plans for Gazprom even before assuming the presidency at the end of 1999. This was first evinced through his 218-page Ph.D. thesis, which Putin completed in 1997 at the Mining Institute of St. Petersburg. In his thesis, entitled *Refinement of Tax Mechanisms in the Mineral and Natural Resource Complex, Using the Leningrad Region as an Example*, Putin argued "for greater state control of the raw materials economy and outlined a plan for restructuring the Russian economy."⁶ Gazprom would ultimately become Putin's primary strategic tool.

Two years later, Putin again highlighted the importance of mineral and raw material resources to the development and success of Russia in an article entitled "Mineral and Raw Materials Resources and the Development Strategy for the Russian Economy." In the introduction of the article, according to a translation done by Tom



Prime Minister Vladimir Putin (right) and Gazprom CEO Alexey Miller (left) visits Gazprom's dispatching office, 13 January 2009.

Fennell, Putin wrote:

Sustainable development as it applies to minerals and raw materials is to be understood as the guaranteed provision of economic security to the country through the creation of a reliable mineral and raw materials base for satisfying the current and expected needs of the Russian economy taking into account the ecological, social, demographic, defense and other factors . . . Mineral and raw materials represent the most important potential for the economic development of the country.⁷

On 31 December 1999, President Boris Yeltsin resigned five months early and appointed Putin as acting president. Three months later Putin hit the campaign trail to secure the new presidency. During his campaigning, he stopped in Surgut, where he offered a glimpse into what would become his strategy to take control of Russia's natural resources. He said, "We will support [oil and gas companies] by all means, but we will also control their work."⁸ This is precisely what would come to fruition.

A jewel in the crown. Gazprom had seen many ups and downs, but it wasn't until Putin assumed the presidency in Russia that the company truly began to spread its roots and take on a whole new life. In 2000, after the annual shareholders meeting, Gazprom's directors changed leadership. Company managers no longer had a majority of seats, and a new chairman, Dmitri Medvedev, was elected to replace Viktor S. Chernomyrdin. Medvedev would go on to be the board's deputy chairman between 2001 and 2002 before reassuming the chairmanship. Meanwhile, in 2001, the CEO of Gazprom was replaced with Alexei Miller, the deputy Minister of Energy and another Putin ally. These three leaders—Putin, Medvedev, and Miller—would go on to become an unbreakable circle firmly tying Gazprom and the Kremlin together.

In 2003, two years after Putin took over the presidency, the government's stake in Gazprom rose to 51 percent, giving it total control of the company. While Gazprom was not adversely affected, Putin's determination to control the energy industry became apparent through a number of highly publicized and controversial events, which demonstrated the Russian government's heavy-handed approach in taking back control. Yukos, once one of the world's

largest nonstate oil companies, was completely dismantled. Shell, which was once the majority owner in the touted Sakhalin 2 project, lost its controlling stake through methods that were highly questionable. British Petroleum also fell victim to Russian business tactics. Essentially, Putin took back state control over Russia's most strategic industry. Finally, after Putin had served two consecutive terms as president and was not authorized to serve a third term, he endorsed Medvedev's candidacy. Medvedev won the election, then appointed Putin as Russia's Prime Minister, allowing Putin to maintain his influential status.

Gazprom has been described as Russia's "jewel in the crown."⁹ In 2006 it had over 300,000 employees and its tax contributions alone accounted for over 25 percent of the Russian budget. Russia possesses the largest reserves of natural gas in the world and Gazprom is the largest natural gas monopoly. As the strategic value of Russia's jewel in the crown became more evident, it would become increasingly important to protect it from any harm as any major blow to its infrastructure might be enough to paralyze the government.

Creation of Private Corporate Armies

In 1998, the Russian government claimed to have about 5,000 private security firms employing 155,000 people. However, independent estimates had put the figure between 800,000 and 1,200,000, plus another 200,000 people employed by small security companies that did not have valid licenses. Gazprom's security service alone was employing 20,000 men.¹⁰ These private security forces provided a number of services, including body-guarding, intelligence and counterintelligence, plant protection, and transport of valuables. Private security forces were typically paid four to six times the salary of a government security officers. Some of these firms were front operations of Russian mobsters.¹¹

Today, no one knows exactly how many security forces exist in Russia. According to a February 2009 article in the *RBK Daily* (a Russian daily internet paper devoted to business and investing in Russia), the number of security forces, excluding Russia's armed forces, exceeds 2.5 million men.¹² There are clearly more security forces than there are soldiers in Russia's regular army. According

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to the Ministry of Internal Affairs, over 30,000 private security and investigative firms containing more than 745,000 employees registered with the government. Approximately one quarter of this number exclusively protects business executives associated with organized criminal groups.¹³ More organizations, which have not registered with the government, likely exist.

In early 2007, as the Interior Ministry began a push to prevent company security guards from carrying weapons, a new amendment hit the Duma's lower house of parliament. According to Article 12 of the Federal Law on Armaments, "strategic enterprises" and "strategic corporations" could now acquire weapons to perform "their obligations under federal law." According to Viktor Ilyukhin, who headed the Duma's security committee, the amendments were needed to counter an increasing number of attacks on pipelines.¹⁴ In April 2004, the Mozdok-Kazimagomed pipeline was blown up, an apparent act of sabotage.¹⁵ Another attack occurred on 8 January 2005, when the gas pipeline in Bugulma was blown up. The blast damaged the gas main.¹⁶

Illegal siphoning of oil is also a recurring problem in Russia. According to Mikhail Kroutikhin, a partner in Moscow's RusEnergy Consulting, "Illegal break-ins to siphon oil from pipelines occur frequently, hundreds of cases every year."¹⁷ According to experts with Russia's Black Sea transportation oil company in a 2001 report, stolen oil in Russia's Republic of Ingushetia alone costs millions.¹⁸

According to Gazprom's public relations department, "The changes to the law on armaments are aimed at improving legislation in the area of security for strategic facilities, including Russia's integrated gas supply system."¹⁹ Distinguishing what constitutes an army in Russia is difficult, but company employees now have the right "to store, carry and use service weapons and special devices for self-defense and in the line of duty."²⁰ Meanwhile,

the companies themselves are to finance the armed detachments. "Corporate soldiers" are authorized to use force "while in pursuit of individuals who have committed criminal or civil offenses at the facilities under guard." In other words, their power is not limited to the property or area they are protecting. They can conduct arrests, body and vehicle searches, both on and off their assigned premises. They will also be equipped with "certain types and models of military firearms, issued for temporary use."²¹ The measure has had some analysts and even Russian reporters asking why, with so many armed private security forces already in place, are the current forces inadequate to defend these companies' interests?²²

Gazprom and Transneft are believed to have initiated the new bill to establish these private armies. The presidential administration then approved it.²³ Gazprom is a corporate entity clearly molded into a quasi-state instrument of policy. In the past, oligarchs and criminals surrounded themselves with private security forces, making police activity against them difficult. Putin had waged a war against these oligarchs. When Medvedev launched his campaign for the presidency, much of his focus was on the issue of corruption and the "rule of law." Passing the bill to establish private armies may have been necessary to continue the battle against the oligarchs by stamping out their private security forces.²⁴ Creating new corporate armies would eliminate the need to contract outside security forces, which might otherwise be shielded by the mafia.

Worth noting is that the new bill allowing Gazprom and Transneft to arm themselves came about shortly after NATO began forging links with multinational oil companies. In May 2007, Jamie Shea, director of policy planning at the office of NATO's Secretary General, announced, "We are looking very actively at using our maritime resources . . . [NATO wants to see] how we can link up with oil companies."²⁵ NATO offered British Petroleum and Royal Dutch Shell seaborne rapid response forces to

According to Gudkov... If we pass this law, we will all become servants of Gazprom and Transneft."

defend oil platforms and installations from hijackers and hostage takers.²⁶

Not all Russian government officials were enthusiastic about the idea of these corporate armies, but it did not affect the decision. The amendments to the law reportedly slipped by quickly and with minimal publicity. Deputy Aleksandr Gurov, who headed the Ministry of the Interior fight against organized crime during the Soviet days, tried to explain why Gazprom and Transneft needed armies. In his argument, he pointed out that, "The number of criminal oil pipeline tap-ins had increased from 84 to 1,000 since 1999." On the other hand, he was unable to explain why regular security was unable to deal with the oil thieves.²⁷

During three readings for the bill, there was little discussion to counter it. However, Deputy Gennadi Gudkov did not hold back on voicing his concern. According to Gudkov, who has a background in law enforcement, it would open up a "Pandora's box . . . This law envisages the creation of corporate armies. If we pass this law, we will all become servants of Gazprom and Transneft."²⁸ Gudkov further pointed out:

We can't say that we have only two exclusively strategic companies—Transneft and Gazprom. What about RAO Unified Energy Systems, LUKoil, VympelCom and MTS? Are they any less strategic than Transneft or Gazprom? They'll demand the same rights and we'll end up with many corporate armies. For Gazprom and Transneft, this isn't really a security issue. It's a show of strength, demonstrating the power of their administrative resources. After all, they do have other options for solving the problem: they could organize private security firms, and they already have their own security services.²⁹

Gudkov went on to describe the measure as "a display of corporate strength within the state."³⁰ His points are noteworthy because the bill is written, such that other large companies could pursue their own armies, as well. The law "on armaments" will now state that "legal entities with special statutory purposes shall have the right, pursuant to regulatory legislative acts of the Russian Federation government, to acquire civilian and service weapons from legal entities-suppliers after being duly licensed by law enforcement agencies."³¹

Stanislav Markelov, a lawyer and president of the Rule of Law Institute, criticized the wording of the new law:

The idea [is] that corporations have some sort of "obligations"—why is a federal law assigning the state's obligations to private structures?! This clearly erodes the boundaries between the state and corporations: either the state is now functioning as a private company, or corporations are replacing the state. Essentially, due to the weakness of the security and law enforcement agencies, we are legalizing what has been the de facto state of affairs in Russia since the early 1990s.³²

Another high-ranking source is concerned that "a corporation has its own interests, which don't always coincide with the state interests." He further pointed out that the state will not be permitted to monitor these new army forces, asking, "What if the corporation's interests diverge from state interests? These corporate armies are potential tools for a coup!"³³

Unmanned Aerial Vehicles

According to the new law, "the Russian Federation government shall establish the varieties, types, models and number of civilian and service weapons that legal entities with special statutory purpose may acquire."³⁴ What types of weapons the Russian Federation will allow these strategic companies to possess is the big question.

What if the corporation's interests diverge from state interests?



Pictured is an Irkut-200 UAV on display during the International Defense Exhibition of Land Forces, which took place in Moscow, 30 June to 4 July 2010. Gazprom joined forces with Irkut Corporation in 2007 to use UAVs to monitor and protect Gazprom's vast natural gas and pipeline network.

There is a growing market in Russia for civilian unmanned aerial vehicles (UAVs). The main customers are not defense and law enforcement agencies, but gas and oil companies.

While the Russian armed forces had deemed these UAVs more important after seeing their relevance during foreign military operations such as Desert Storm, there is a perception that the Russian government does not place much importance on producing them domestically. Civilian customers, however, are reportedly keeping an eye on these UAVs with ever-increasing interest.³⁵

In 2007, Gazprom joined forces with Irkut Corporation, a full-scale Russian aircraft-manufacturing company that specializes in both civil and military aircraft, to use unmanned aerial vehicles to monitor and protect Gazprom's vast natural gas pipeline network. Gazprom began to run trial test flights of the UAVs Irkut 2M and Irkut-850 in 2007. These two UAVs traveled more than 28,000 miles during their trial operations.³⁶

The lightweight Irkut 2M has an effective radius of 6.2 miles. The Irkut-850 has an effective radius of 124 miles and can be equipped with an infrared

camera sitting on a gyrostabilized turret. It has a 3-D laser mapping system and a real-time down-link. The Irkut-850 also has a seat for a pilot, but is designed to fly unmanned to conduct surveillance of borders and terrain. It can have a DSP-1 electro optical system, which makes it possible to detect and identify a person at a distance of up to 2.8 miles. The thermal imaging channel does the same at night to a distance of up to 2.5 miles.³⁷ Not overly impressed, the Defense Ministry has largely ignored this particular UAV.³⁸

It is conceivable that Gazprom could obtain more sophisticated UAVs offering more features than either the Irkut-2M or Irkut-850. These features might include enforcement and attack capability. Whether or not these more capable drones will end up in Gazprom's possession remains to be seen.³⁹ It would certainly explain why representatives from Gazprom reportedly visited Israel (considered a leader in UAV technological innovation) "with the objective of discussing the possibility of using (possible Israeli) unmanned systems."⁴⁰

The UAV industry in Russia has been inadequate owing to a lack of government backing. However, as

Gazprom now brings Irkut UAVs online to protect its pipelines, it may give the industry the financial boost it needs to develop more sophisticated and capable drones. Gazprom could also provide much-needed financing for more sophisticated technology such as the MQ-9 Reaper (Predator B-003) class, which, along with a highly capable tracking system, can remain airborne for over 30 hours, reach altitudes of over 50,000 feet, and carry up to 3,000 pounds of weapons.

Since Russian UAV technology is clearly behind that of other countries, the Russian Ministry of Defense will not purchase any of the Irkut drones, which has incensed industry representatives.⁴¹ According to weapons expert Richard Fisher, vice president of International Assessment and Strategy Center, the Soviet Union developed some single-purpose surveillance drones from the 1960s onwards, but did not follow the U.S. and Israeli examples in technological innovation. As a result, Russia had little to offer in the way of exports of UAVs during the 1990s. This could well change once Gazprom begins buttressing that industry for its own benefit.

Conclusions and Possible Implications

In a book titled *At the Abyss: An Insider's History of the Cold War*, author Thomas C. Reed explained that the United States was intent on preventing Western Europe from importing Soviet natural gas. In addition, the Soviet Union was thought to be trying to steal a wide variety of Western technology. In his memoirs, Reed, a former Air Force secretary who served in the National Security Council during the Reagan administration, admitted that the president had approved a CIA plan to covertly transfer technology containing hidden malfunctions that triggered a huge explosion in a Siberian natural gas pipeline. The explosion, which occurred during the summer of 1982, was an effort to sabotage the Soviet Union's economy. According to Reed, the explosion was picked up on U.S. satellites and "was the most monumental non-nuclear explosion and fire ever seen from space."⁴² Some experts believe that the explosion did indeed lead to the ultimate collapse of the Soviet Union.



(Courtesy of Richard Fisher)

The backdrop of Irkut Corporation's booth, which was on display during the International Defense Exhibition of Land Forces this year, depicts Irkut aerial reconnaissance systems, including the Irkut-850 (the third aircraft pictured from left) linked to various ground control stations.

The fall of the Soviet Union caused Russia to lose ownership of many natural gas resources no longer within its borders. Further exacerbating the problem for the state was the privatization of strategic industries. Today, the government has managed to regain control of its most strategic assets. It seems intent on ensuring optimal security and continued success through careful control.

Russia's new law allowing corporate armies does not completely add up. While the United States has been privatizing its military logistics, Russia is militarizing its corporate security. Western firms do much the same thing that Gazprom is now authorized to do when they operate in unstable regions. However, Russia's justification is weak in light of there being so many security forces already in place.

The establishment of private armies, coupled with increased surveillance capability that could easily transfer to more militaristic capability (i.e., UAV's role changing from protective surveillance to spying or attack) deserves monitoring. That Russia must safeguard its vast pipeline infrastructure from sabotage is understandable. Not only is it critical to Russia's economy, but it is also critical to other countries in Eastern and Western Europe that are dependent on Russia's natural gas and oil. Gazprom controls approximately 95,000 miles of gas pipelines that link Russia's gas fields in remote parts of Siberia to urban areas and to Europe. However, with tensions rising between Russia and some of its neighboring countries,

more transparency regarding Russia's intentions and exactly how these forces and equipment will be used would ease concerns. Currently, there is neither press nor public awareness of the status of these corporate armies and whether or not they have actually been formed.

Gazprom could be adding tools to help it rebuild a power base that extends beyond its role as a gas utility. While the new law would allow security forces to be deployed simply to protect infrastructure, with Gazprom's pipelines extending into Europe the move could somehow allow these security forces to move across sensitive borders into Ukraine, Belarus, and Poland.⁴³ There are no clear restrictions to these corporate armies. How many troops they can or will hire is a mystery. What types of weapons they are authorized to use is unclear. These armies do not fall under the Ministry of the Interior or the Ministry of Defense, and therefore are not subject to the same laws and scrutiny.

As the bill's author, Alexandre Gurov, pointed out, "A couple of terrorist acts and an ensuing ecological catastrophe would be enough to immediately declare Russia an unreliable partner and supplier of energy."⁴⁴ However, there seem to be more questions than answers. Is the Kremlin allowing Gazprom to go too far and could these "armies" become a security threat to other power ministries? From an international corporation standpoint, how far will the rest of the world allow Russia to go? **MR**

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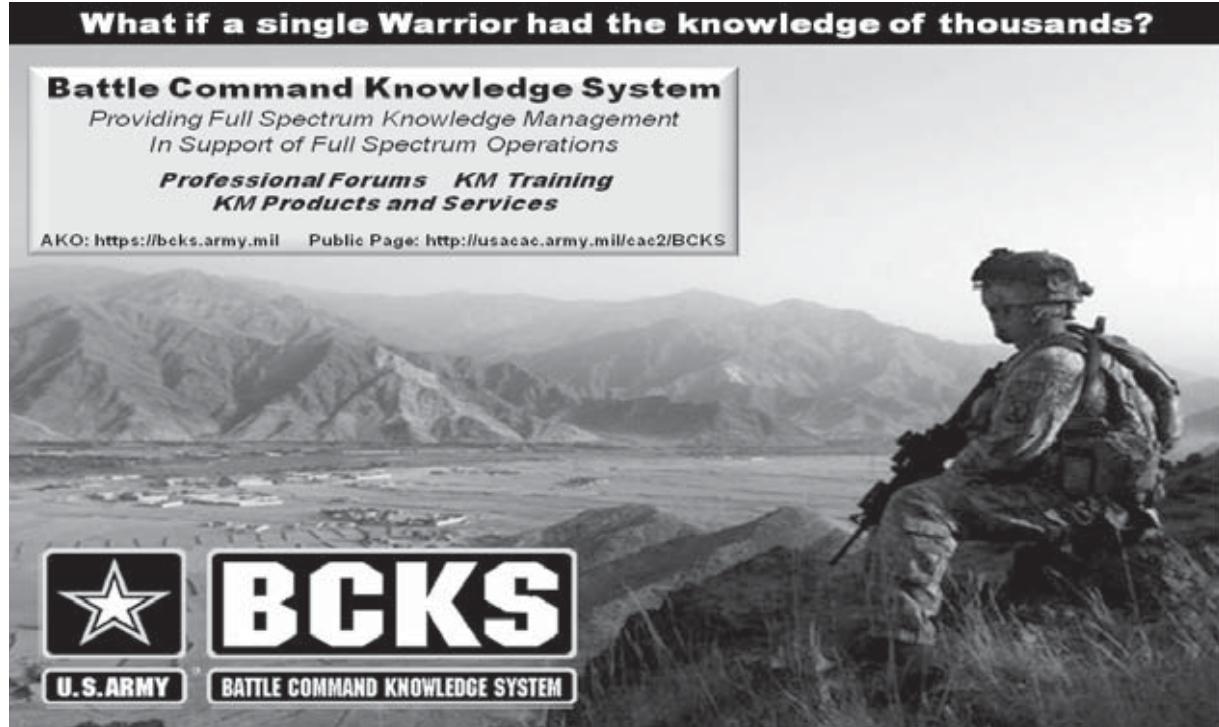
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